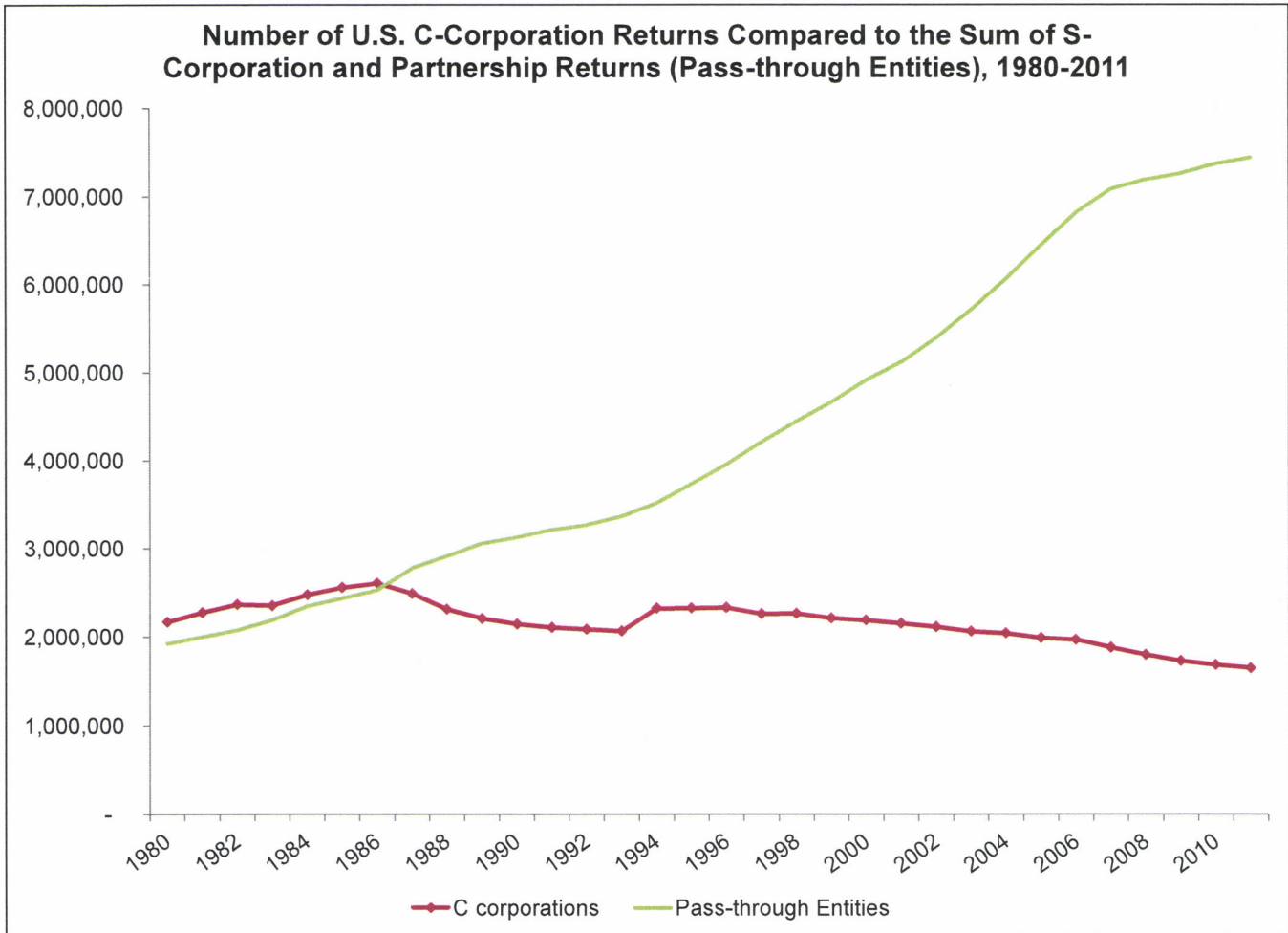


Overview of Pass-Through Entities

Growth of Pass-Through Entities

Increasingly, in Montana and nationwide, business and investment activities are being conducted by "pass-through entities." The graph below shows the number of returns filed with the IRS by C corporations versus those filed by pass-through entities (partnerships and S corporations) from 1980 through 2010 (the graphs and history in this section are from *Selected Issues Relating to Choice of Business Entity*, Joint Committee on Taxation, U.S. Congress, July 27, 2012; 2010 and 2011 data is from the IRS Statistics of Income Division).



Over time Congress has modified the rules governing pass-throughs, particularly S corporations, making those business structures more attractive for business purposes. For example, the number of permitted shareholders has been expanded from the original 10 in 1958 to 35 in 1982, 75 in 1996, and 100 in 2004, where it remains today.

The graph on the next page shows growth over the same period, 1980–2011, of all types of business organizations, including non-farm sole proprietorships, S corporations, partnerships, and farms filing Schedule F.